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FROM THE AMBASSADOR
STATE FOR P, WHA, H

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SUBJECT: SCENESETTER FOR THE VISIT TO NICARAGUA BY CODEL
ENGEL -- FEBRUARY 18-20, 2008

¶1. (SBU) On behalf of Embassy Managua, I want to warmly welcome you to Nicaragua. Your visit is an opportunity to underscore our continuing commitment to the Nicaragua people and willingness to engage with the Nicaraguan government on areas of mutual concern, while emphasizing our growing concerns about the state of democracy and rule of law. The U.S. Government's top priorities in Nicaragua are to help the Nicaraguan people preserve democratic space and to demonstrate the good will of the United States. At the same time, we seek to maintain intense engagement with Nicaragua by continuing our significant economic, democracy-strengthening, and social-assistance programs for the Nicaraguan people, and our successful counter-narcotics cooperation.

DEMOCRACY RETREATING -----

¶2. (SBU) During the first seventeen years of democratic transition (1990-2007), Nicaragua made strides in the development of democratic institutions, increases in social welfare, the protection of civil rights, the development of a professional army, and the establishment of an open market economy. Our robust assistance program has facilitated these improvements. Since the return of the Sandinista National Liberation Front (FSLN) to power in January 2007, however, Nicaragua has drifted sharply away from democratic governance toward increasing authoritarianism. The most recent and ominous manifestation of this shift was the FSLN's campaign to win the November 2008 municipal elections at any cost. Using the legal framework when convenient - ignoring it when not - it outlawed two political parties, acted to debilitate civil society organizations working in governance areas, used the Supreme Electoral Council (CSE) to manipulate voter registration and exclude observers, and employed its network of Citizen Power Councils (CPCs) to carry out door-to-door registration and affiliation surveys and to attack and intimidate opponents.

¶3. (SBU) Election day on November 9, 2008 was characterized by massive irregularities and the absence of credible electoral observation. The CSE approved preliminary results favoring the FSLN candidates, despite a demand for a recount from the opposition parties and civil society. Violence erupted when mobs of government supporters blocked marchers attempting to protest the election fraud. On November 20, Nicaragua's electoral authority formally announced that the governing FSLN had won 105 out of 146 municipalities, contradicting the results it had posted earlier on its own website. Efforts through the National Assembly to nullify the elections or open the results to an international audit have not been successful to date. Independent observers, backed by tallies provided by the opposition, indicate that

opposition candidates may have won election in at least 30 of the municipalities awarded to the FSLN, including Managua.

¶4. (SBU) In January 2009, in a continuation of their "pacto" power-sharing agreement, the FSLN and former president and convicted felon Arnoldo Aleman struck a deal that handed control of the National Assembly to the FSLN and its allies in exchange for the dismissal of all convictions against Aleman. This new corrupt alliance provides a governing majority that allows the regime to restrict democratic space rapidly. President Daniel Ortega is expected to seek constitutional changes that would allow him to stay in power beyond the current term of five years and would create a semi-parliamentary system that would ensure that the FSLN and Aleman's Constitutional Liberal Party split power between themselves.

¶5. (SBU) In addition to the pressures on non-FSLN political parties, the Nicaraguan government in August and September initiated a general crackdown on international and local non-governmental organizations (NGOs) involved in democracy promotion or otherwise critical of the government. On August 27, the government brought charges against the International Republican Institute and other local NGOs, alleging that these organizations improperly sought to influence municipal elections by hosting a seminar in which former Mexican president Vicente Fox criticized the anti-democratic actions of the Ortega government. On September 24, the government opened investigations of 17 prominent civil society organizations for supposed money laundering of aid from international donors. As a result of these investigations, the government raided several offices, froze accounts, performed onerous tax audits, and canceled the registration of some organizations. Most recently, the Nicaraguan government and FSLN Deputies in the National Assembly have proposed new legislation to increase government control over civil society, including potential restrictions on activities and a requirement that all foreign funding be channeled through the government rather than going directly to the NGOs. Despite the pressures on traditional civil society groups, Nicaragua's press remains largely free and independent.

THE PEOPLE'S PRESIDENT

¶6. (SBU) The overarching theme of President Ortega's administration is poverty alleviation. Reflecting his Marxist studies, he believes that inequalities within Nicaraguan society have their origins with the wealthy class, or "oligarchy." The only way to change things is for the poor to take control of their government and pursue socialism. On June 23, 2008, Ortega declared that "socialism" was the only way forward. With this statement, he joined Chavez in the search for a new socialist model, Socialism for the 21st Century, the outlines of which are still being drawn.

¶7. (SBU) With the help of First Lady and chief propagandist Rosario Murillo, Ortega has plastered the country with billboards of himself and inundated radio and television, especially in the runup to the November municipal elections, with political slogans and advertisements extolling the virtues of the FSLN. In some, he has proclaimed himself the "People's President" and more recently claims that to "serve the people is to serve God." In town hall meetings held weekly, he regularly accuses his political enemies of corruption, savage capitalism, and with being members of the oligarchy or remnants of the Somoza dictatorship. In form and function, Ortega is successfully blurring the distinction between party and state by tying FSLN symbols to every aspect of government and managing funds from Venezuela off-budget. Ortega continues to operate his presidency out of FSLN party headquarters.

¶8. (SBU) With the power-sharing agreement that gave him control of the National Assembly, Ortega's control now

extends into every branch of government, including the executive, judiciary, the elections council (CSE), municipal government, and the legislature. To consolidate control of the executive branch after coming to office in January 2007, Ortega fired over 7,500 civil servants in his first year in office, depriving the country of needed expertise to manage programs, and replacing them with personal loyalists. He controls the judiciary through political appointments at all levels and a network of magistrates, including in the Supreme Court.

¶9. (SBU) In order to expand his reach into all levels of society and government, Ortega has created the Citizen Power Councils (CPCs) to supplant existing civil society organizations and legally-mandated mechanisms for public input to and oversight of government. Reminiscent of the ruthless Committees for the Defense of Sandinismo (CDSs) in the 1980s, the CPCs have been used to intimidate, threaten and stir public demonstrations against the FSLN's opponents. Letters of recommendation from the CPCs are frequently required to obtain government employment or social services. CPCs are increasingly involved in the distribution of government housing, food and healthcare and such aid is often directed towards party loyalists rather than those in most need.

THE ECONOMY

¶10. (U) The Central American Free Trade Agreement (CAFTA-DR) came into force between the United States and Nicaragua in April 1, 2006. The agreement has kept the United States Nicaragua's largest trading partner. U.S. exports to Nicaragua were USD 890 million in 2007 and imports from Nicaragua were USD 1.6 billion. About 25 wholly or partly owned subsidiaries of U.S. companies operate in Nicaragua. The largest of these are in energy, light manufacturing, financial services, retail and aquaculture.

¶11. (SBU) Nicaragua is primarily an agricultural country, but services (especially tourism, commercial, and financial), light manufacturing (mostly apparel), construction and seafood have grown in importance in the last few years. Lacking a large internal market, Nicaragua depends on exports for economic growth. In 2007, total exports were USD 2.3 billion, equivalent to 40 percent of Nicaragua's GDP. Traditional exports such as coffee, meat, and sugar still lead the list of Nicaragua's exports, but the fastest growth has taken place in light manufacturing (apparel and automobile wiring harnesses), food processing, seafood and new agricultural products such as peanuts, sesame, melons, tomatoes, and onions. Tourism has become the nation's third largest foreign exchange earner, with some 60,000 American citizens or residents traveling to Nicaragua yearly -- primarily on business, as tourists, and to visit relatives. Many Nicaraguans depend upon remittances from family members living in the United States and Costa Rica. In 2007, remittances totaled about USD 800 million, or about 12 percent of GDP.

¶12. (U) Despite the growth in the export sector, Nicaragua remains the second-poorest nation in the hemisphere. Officially, unemployment is at 4.9 percent of the workforce, but this figure does not include the informal sector, which comprises an estimated 60 percent of the total workforce. In 2007, growth was 3.8 percent, bringing GDP to USD 5.72 billion. Growth in 2008 is expected to come in at around 2 percent. Problems on the horizon include slowing foreign investor interest as the result of increasing political risk and persistent trade and budget deficits. Foreign assistance, including donations, concessional loans, and debt relief constitute approximately 25 percent of the budget, and have been needed to bridge these deficits.

¶13. (SBU) The government's actions during last November's municipal elections have damaged Nicaragua's relationship with foreign donors, including the European Union and the

United States. The European Union has frozen more than USD 60 million in direct budget support and other assistance. The government is seeking to make up this shortfall by seeking assistance from Russia, Iran, Libya and Venezuela but with no visible success. According to official press releases, in 2007-2008, Venezuelan development assistance to Nicaragua was about USD 375 million, but this may not include additional undeclared and off-budget assistance to the ruling FSLN party. The FSLN appears to have used this part of assistance to invest in party building, pay for party projects and political propaganda, and to fund the campaigns of pro-government candidates in the November 2008 municipal elections.

COUNTER-NARCOTICS AND MERIDA

¶14. (SBU) Nicaragua is not a major drug producing country. However, because of its geographical location, it continues to serve as a significant transshipment point for South American cocaine and heroin destined for the United States. There is evidence that this narcotics trade is increasingly tied to arms trafficking as well. This situation, combined with Nicaragua's weak adherence to the rule of law and democratic standards, judicial corruption, the politicization of the prosecutor's office and the Supreme Court, and insufficient funding for law enforcement institutions, makes Nicaragua a convenient location for narcotraffickers and its financial system an attractive target for money laundering. Despite these weaknesses, the Nicaraguan government, particularly the Nicaraguan National Police (NNP) and the Nicaraguan Navy, have made a determined effort to combat domestic drug abuse and the international narcotics trade. In FY 2008, these combined forces seized approximately 19,505 kilograms of cocaine and over USD 4,742,000 in currency. In 2008, the NNP also recorded its first seizure of pseudoephedrine in Nicaragua.

¶15. (SBU) U.S.-Nicaraguan cooperation on counter-narcotics activities has been excellent and is one of the high-points in our bilateral relationship. Under the Merida Initiative, Nicaragua will receive USD 3,385,907 in FY08 funding, plus access to regional programs, such as training positions at the International Law Enforcement Academy in San Salvador. Under the Merida Initiative, Nicaragua will receive additional training and support for participation in the Central American Fingerprint System, aid to special vetted units, improved policing and police equipment, improved prison management, improved border inspection capabilities, firearms stockpile management and destruction, and special programs directed at at-risk youth.

¶16. (SBU) There is, however, growing concern over the potential politicization of the Nicaraguan police and armed forces. In the November 2008 post-election violence, the NNP failed to take measures to adequately protect opposition protesters and there were reports of their direct involvement in instances of abuses or electoral violations. Recent replacements of senior leaders in the NNP indicate that Ortega may be increasing his personal control over the organization.

MILLENNIUM CHALLENGE SUSPENSION

17.(U) The Millennium Challenge Corporation (MCC) is funding a USD 175 million poverty reduction grant with Nicaragua, which provides direct assistance to some of the poorest regions and promotes long-term development goals. The five-year grant, signed July 14, 2005, seeks to support those living in the departments of Leon and Chinandega by significantly increasing incomes of rural farmers and entrepreneurs. The compact is designed to reduce transportation costs, improve access to markets, strengthen property rights, increase investment, and raise incomes for farms and rural businesses. In order to be eligible for MCC assistance, a country must be committed to policies that

promote political and economic freedoms, investments in people, control of corruption, and respect for civil liberties, as measured by 17 independent policy indicators.

¶18. (U) MCC determined that political conditions leading up to, during, and following Nicaragua's November 2008 municipal elections were inconsistent with MCC's eligibility criteria. As a result, MCC has suspended disbursements not already contracted, principally for rural road construction, and for implementation of its property regularization program pending a review of political conditions in the March 2009 MCC Board meeting. Because of the impact a suspension could have on Nicaragua's rural poor, MCC will continue to provide assistance to local farmers, farming cooperatives and other rural businesses by continuing its rural business development project.
CALLAHAN